

**DEPARTMENT OF STATE REVENUE**

**LETTER OF FINDINGS NUMBER: 97-0244**

**Individual Income Tax  
Calendar Year 1992**

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**ISSUE(S)**

I. **Adjusted Gross Income**—Royalty Income

**Authority:** 45 IAC 3.1-1-25; Information Bulletin #28

Taxpayer protests the assessment of tax on Indiana royalty income.

**STATEMENT OF FACTS**

Taxpayer, in a telephone conference hearing held on January 21, 1998 protested the assessment of income tax on Indiana royalty income. Taxpayer is a resident of California.

I. **Adjusted Gross Income**— Royalty Income

**DISCUSSION**

At issue is whether the taxpayer is subject to tax on income generated from royalties paid by an Indiana corporation.

Taxpayer argues that the state of California taxes all income of residents regardless of the source, including world-wide income which is acknowledged by Indiana granting a credit for tax paid to California on Indiana taxed income. Taxpayer further states that the tax was paid and they are requesting a refund of the excess.

A review of the audit and corresponding records indicates that no returns were filed by the taxpayer in Indiana. The audit generated tax due for royalty income paid by an Indiana corporation.

45 IAC 3.1-1-25 states:

All persons who are not residents of Indiana are required to report that portion of their entire income directly or constructively from or attributable to business, activities, or any other source within Indiana...

The Indiana Tax booklet clearly states that a full-year nonresident is subject to tax on all income included in his or her total federal income that is derived from or connected with Indiana sources. However, California is a reverse credit state. Information Bulletin #28 allows the out of state resident a credit on the Indiana tax return for taxes paid to California on Indiana income.

Taxpayer filed a California return that includes all income and has paid California tax on income generated from Indiana royalties.

**FINDING**

Taxpayer's protest is sustained.